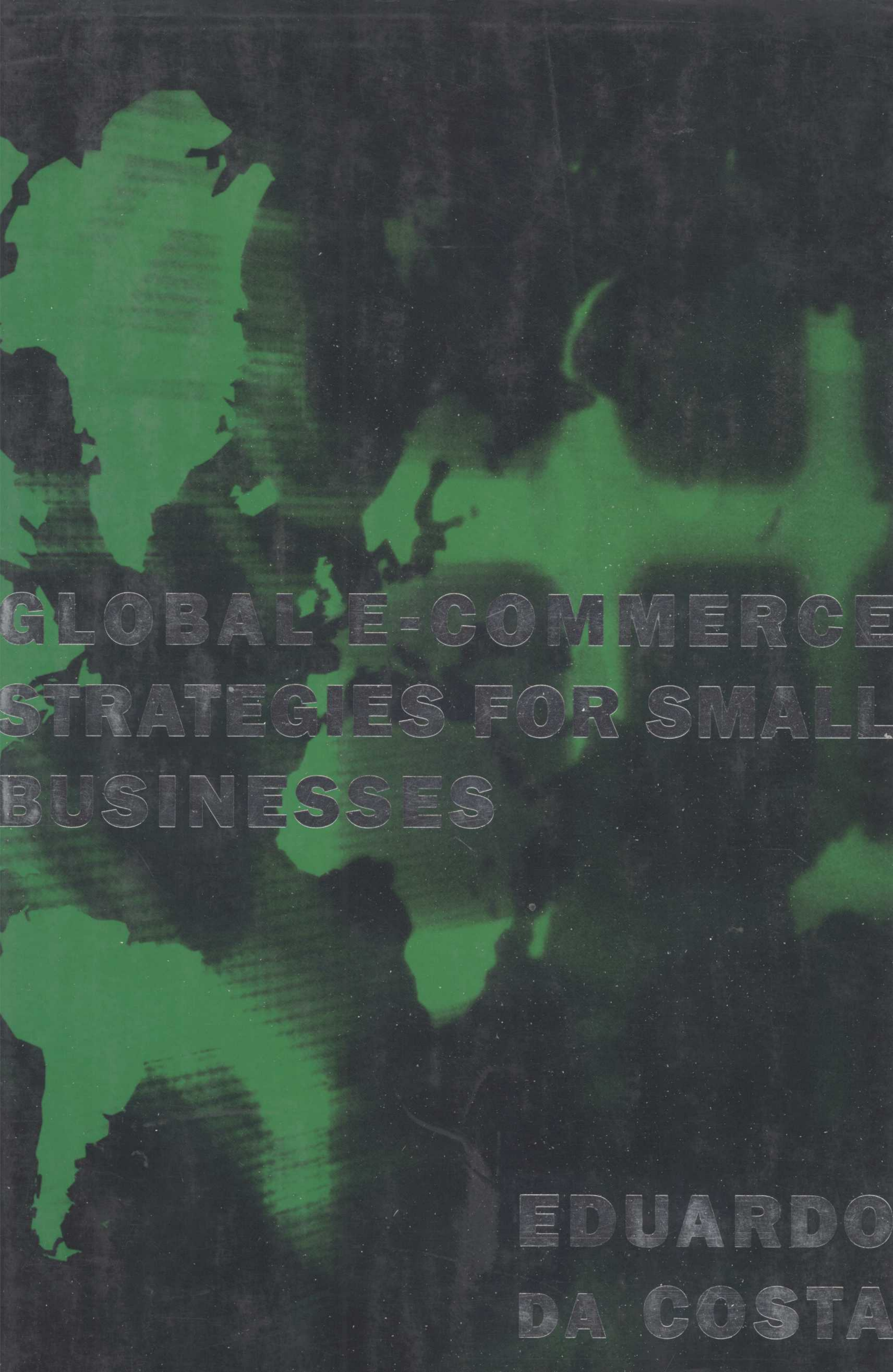

GLOBAL E-COMMERCE STRATEGIES FOR SMALL BUSINESSES

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Preface

The Internet and its users today is comparable to sex and adolescents: everyone talks about it, but few have fully experienced it. Many people have used e-mail, the exchange of electronic mail (a very modest capability). But the Net's most significant applications are emerging slowly. Electronic commerce (e-commerce) is one of them. Goods and services will increasingly be traded online. Many consumers "window shop" on the Net and then buy goods at a retail store. But many others buy on the Internet and pay for the goods online. In fact, some goods can actually be delivered online. What kinds of products will be affected by e-commerce? More to the point, which products and services will not be affected? The unavoidable truth is that a new information society is dawning and every business must be prepared for it.

Why should small companies that are doing well in their local markets bother with exports at all? Because success in today's marketplace can be misleading. If the owners of small companies do not think globally, they may not be prepared when one of their local or international competitors begins to encroach on their local markets. Consumers already are buying services—from theater tickets to travel packages—directly on the Net. How does this change affect anyone's market?

Global E-Commerce Strategies for Small Businesses explains these rapidly changing times, signs of which are evident everywhere. Shares of Internet-related companies, even after some market correction, are being offered and traded on Wall Street at prices that are justifiable only if spectacular growth is anticipated. New forms of electronic commerce are being invented that will allow for small-change transactions ("a picture for a dime") that were simply nonexistent before. Teachers are surprised to learn details about their own subject from their pupils (who got them from the Net). And all these changes are happening very fast.

In this evolving scenario, what is the role of small companies? What opportunities are opening up for them in the global market? Are young entrepreneurs and small-company owners aware of the growing importance of their businesses for their local communities, their countries, and the world?

Global E-Commerce Strategies for Small Businesses examines opportunities in the global market for startup, small, and medium-size companies within the information industry or in any business sector. By recognizing opportunities and effectively using services provided by the information industry, owners and managers of small and medium-size companies, entrepreneurs in the making, teachers and students of the Internet, and professionals and other individuals who are considering starting a new company can reach the global market and thrive there.

The book describes seven successful small companies from six different countries in seven different kinds of businesses. Their most striking common characteristic is that the Internet and other information technologies were the very reason for their growth. The businesses range from an orchid producer and exporter in Singapore to a small eyeglasses shop in Italy to an electronic trading company in the United States. From their experiences you can learn what it takes to go global, but more important, you will realize that *it is now possible* for you too to trade internationally.

The export business may not be for everyone. A small bakery nestled in a quiet residential area anywhere in the world is not a likely exporter. But even a small shop of this kind can benefit from the information provided here. Think, for instance, about the items that a bakery buys: Are they available online? Can they be bought directly? Could several bakeries build an alliance to get a bulk discount when importing basic supplies? And once the bakers become familiar with the new medium, could they sell their packaged cookies abroad?

Although *Global E-Commerce Strategies for Small Businesses* is not intended as a how-to book about going online, it describes in detail all the steps necessary to start an international business. Once readers understand the procedure and the challenges involved, they will be in a better position to assess the status of their business as a potential global company.

The book is organized in two blocks. The first (chapters 1 through 4) provides a context for decision making with background information on small companies, on the information industry and the evolution of electronic commerce, and on the challenges of going international. The second (chapters 5 through 8) describes examples of successful small companies worldwide and the lessons learned from their experience, gives an overview of the steps necessary for setting up a global business, and concludes with an optimistic view of things to come.

This conclusion goes beyond the business world to examine how information technologies will affect our social lives and our families. It describes my particular vision of the future—a time when small companies will have a much larger share of economic activity worldwide, when businesses and consumers will organize themselves into virtual communities, and when the world will be, quite simply, better.

Cambridge, Massachusetts

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Global E-Commerce Strategies for Small Businesses

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The Growing Worldwide Importance of Small Companies

A worm can roll a stone
A bee can sting a bear
A fly can fly around Versailles
'Cos flies don't care!
A sparrow in a hat
Can make a happy home
A flea can bite the bottom
Of the Pope in Rome!
—*Les Misérables*

A Common Misconception (or Size Isn't Everything)

Owners of small businesses the world over have traditionally labored independently—often in relative obscurity and on shoestring budgets—and their role in industry and society has largely been viewed as marginal. The social and economic contributions of small businesses have been overshadowed by the industry presence and financial muscle of large corporations. One of today's most common misconceptions is that large corporations are more important players—in both the business world and the community at large—than small businesses.

Imagine a cocktail party where three people meet for the first time. Typically, one of the first topics of their conversation is work:

"What do you do?"
"I'm a financial analyst for Citibank. And you?"
"I'm a marketer for Microsoft. What about you, Joe?"
"Well, I just have a small business here in town, you know."

Such self-effacement is common among small-company owners. Most of them are not aware that small companies are generating the majority of new jobs, innovative ideas, and economic development in the world today, as will be discussed here. Rather than feeling apologetic, Joe should realize that his social role is in a way even more important than that of either of his new acquaintances, the corporate climbers.

The misperception is magnified by the merger mania of the past few years. News of the latest megamerger hits the headlines almost every day: Citibank joins forces with Travelers Group, Mercedes with Chrysler. America Online (AOL) buys Time Warner (is it not the other way round?).[1] With the growing number of mergers between big companies, many business owners feel that small companies are becoming even less significant. After all, "If Digital had to join with Compaq to compete in the global market, who am I to even think of trying?"

The truth behind these megamergers, however, is that big companies are becoming bigger but also fewer, whereas small companies are growing in number and importance every day. Large firms are important players and are responsible in many cases for the very existence of small firms, since they require and help to establish a network of vendors and suppliers. But while large companies are generating output, small companies are creating jobs. For many countries and regions of the world, adequate employment is a critical need, and establishing an environment that nurtures the development of small companies has become a top priority.

The role played by small companies in the international market is another area of misconception. There is a general belief that the international market is the realm of large corporations. Owners of small companies that define the limits of their territory by town or state boundaries may have difficulty envisioning how they could enter other states' (or other countries') markets. For many other small companies, though, the data show a different picture. According to the U.S. Department of Commerce, U.S. exports grew at three times the rate of any other economic activity in the country, and half of the growth was attributable to small and medium-size enterprises (SMEs). Small companies have traditionally tended to focus on one product or service for the local market, but now many small companies are increasingly targeting the global market for that same market segment. John Naisbitt calls this trend "the global paradox" in his best-selling book by the same name.[2]

Information technology (IT) plays a large role in the global expansion of small businesses, but it is not the only factor. The trend toward globalization of the economy has been with us for several decades, since well before the Internet phenomenon, and has affected SMEs as well. But because of the Internet and e-commerce, small companies are an increasingly powerful driving force in the emerging global marketplace, creating new jobs and spurring innovation and economic development all over the world.

What Is a "Small Company"?

The definition of *small company* varies from country to country. In the United States, small companies are defined as having fewer than 100 employees; by that definition there are 25 million small U.S. companies. But because most of these small companies are the various business entities of a single owner, the number of small companies with at least one employee (other than the owner) is only between 5 and 6 million.

Americans define SMEs (including medium-size companies) as firms having fewer than 500 employees, but this definition is not useful statistically in Europe, since 99.9 percent of all European businesses fit that definition.[3] In fact, the snapshot of company size in Europe in 1992 shown in table 1.1 illustrates that the vast majority of the companies are run by the owner either alone or with up to nine employees.

Table 1.1
Number of Companies in Europe by Size, 1992

	Size of Company (number of employees)	Number of Companies (thousands)
One-person businesses	—	7,846
Microenterprises	1–9	6,783
Small enterprises	10–49	971
Medium-size enterprises	50–249	146
Large enterprises	More than 250	31

Source: European Parliament (1997).[3]

Table 1.2
Classification of Business Size in the three Major Economic Region

Employees	United States	Europe	Japan[a]
0–9	Micro	Micro	Micro
10–19	Micro	Small	Micro
20–49	Micro	Small	SME
50–99	Small	Medium	SME
100–249	Medium	Medium	Large
250–499	Medium	Large	Large
500 and up	Large	Large	Large

Sources: U.S. Small Business Administration (1999), European Parliament (1997), National Federation of Small Business Associations (1998).[5]
a. In Japan, commerce and service industries are micro if they have no more than five employees; retail industries are SMEs if they have no more than 50 employees; manufacturing and mining industries are SMEs if they have no more than 300 employees.

Small companies in developing countries are even more difficult to characterize, since less information is available and circumstances are more varied. In Korea, for instance, more than 2 million SMEs (companies having fewer than 300 employees) account for 50 percent of the total value added of the economy, 69 percent of the total workforce, and (most surprisingly) 43 percent of the annual exports.[4] In Indonesia, SMEs (companies making less than $5 million in income) employ 88 percent of the workforce and produce 39 percent of the country's output (although only 14 percent of the exports). Similarly, in Mexico, SMEs (companies having fewer than 300 employees) employ 78 percent of the workforce and produce 43 percent of the country's output but less than 20 percent of the exports.

Comparison of these numbers on an international level is difficult. Table 1.2 summarizes the definitions of business size in the three largest economic regions in the world.[5]

Definitions vary, but for the purposes of this discussion, microenterprises are companies with one to nine employees, and SMEs in general (including the microenterprises) are companies with fewer than 100 employees, unless otherwise stated.

Genesis of the Small Company

We are living in a time of rapid change. This thought was probably expressed frequently during both the nineteenth and twentieth centuries and perhaps before. Are things really that different now? Perhaps the most obvious difference is that the rate of change is increasing. We are being bombarded with new technologies and products that affect our daily lives. But because people tend to adapt to new technologies fairly quickly, we soon behave as though they have been around forever. Think of photocopiers, initially launched by Xerox. How did we get along without them? Many of us are old enough to have used mimeograph machines and carbon paper, but we tend to forget about such obsolete items. Even the ubiquitous PC that we now take for granted was launched in 1981, only two decades ago.

The Internet, one of the major driving forces in the market today, has been in widespread use for only a few years and commercially only since 1994. An important study about small companies, published by the White House in 1995, states that "the next decade will see an increase in the connectivity between and among organizations and markets" but does not even mention the word *Internet*.[6] So the commercial Internet, which will foster the international growth of small companies, is only in its toddler stage today. As it matures and realizes its full potential, the Internet is capable of generating excitement and attracting a lot of attention. The climate of change at this particular point in time is particularly conducive to the birth of new companies—especially small ones. Massive restructuring occurred in large organizations in the 1980s, followed by sometime dramatic downsizing in the 1990s. The American giant General Electric, for instance, quadrupled its output from $20 billion to $80 billion in the past twenty years—and *reduced* its workforce by 40 percent at the same time. Traditionally, employees of large corporations—big household names like AT&T, NTT, Philips, or IBM, as well as the large banks and public utilities—thought that the implied social contract of previous decades still was in force. The assumption was that hard work, commitment, and loyalty from the worker would be rewarded by the company with lifelong employment and generous fringe benefits, including a good pension plan. A two-decade awakening to the